

**PENNSYLVANIA FOOD
MERCHANTS ASSOCIATION**

AREA 3 REBUTTAL EXHIBITS

COST REPLACEMENT HEARING

FEBRUARY 6, 2018

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INTRODUCTION

The Pennsylvania Food Merchants Association (hereafter "PFMA") conducted an analysis of in-store handling costs related to fluid milk. This study was supervised by Josh A. Pollet, CPA. The study was conducted utilizing stores located in the Pennsylvania Milk Marketing Board (hereafter "PMMB") Area 3 being studied. Raw data was obtained by PMMB and PFMA. PFMA has analyzed the raw data.

DEFINITIONS

In-store handling costs - In-store handling costs are defined as costs incurred from the time store personnel receive milk deliveries until the milk product is purchased and checked out at the check-out counter.

The total in-store handling cost is comprised of four separate components, which are personnel costs, building costs, equipment costs, and other operating costs.

Personnel costs - Costs relative to personnel, including salaries, wages, payroll taxes, fringe benefits and group insurance.

Building costs - Costs are comprised of rent, depreciation, and repairs.

Equipment costs - Costs are comprised of rent, depreciation, and repairs.

Other operating costs - Costs are comprised of utilities, telephone, insurance, advertising, bags, supplies, vehicle expense, business taxes, license fees, professional services, bad checks, cash loss, inventory and cash adjustments, G&A allocated from central headquarters, and miscellaneous expenses.

CROSS-SECTION

Stores included in the study are the same stores utilized by the PMMB in its cross-section (see Table 1).

SCOPE OF WORK

Financial and other store information was accumulated for use with the worksheet illustrated in Table 2. The financial information analyzed for each store, using the month of November 1999, was prepared in accordance with Generally Accepted Accounting Principles. The month of November is considered to be a representative month for the industry.

METHOD OF CALCULATION

Financial information was collected and analyzed on a store-by-store basis. The total milk handling expense per quart was calculated to be the Total Milk Expense (which is calculated by multiplying the total store expenses by the ratio of adjusted milk sales to adjusted total sales) divided by total quarts (see Tables 3 and 4).

CURRENT COST BASED ON CONSUMER PRICE INDEX

The cost of handling milk in retail outlets is constantly changing as the personnel, building, equipment and other costs are all subject to change over time. The changes in costs are both a normal and ongoing part of doing business as a retail outlet. We have used the Consumer Price Index for All Urban Consumers (CPI-U) to calculate the change in costs over time and recommend that the CPI-U be used to adjust the in-store handling cost on a monthly basis. We have presented this calculation for the period from April 2017 to November 2017 (see Table 5). The CPI is the most widely used measure of price change. It is both a timely and reliable source of price change data.

The CPI is released monthly about two weeks after the end of the month. Therefore, it should be updated monthly to provide a current and accurate calculation of the cost of handling milk. In Area 3, the PMMB has adopted a policy to adjust the cost using a two-month delay. This means that the index for November 2017 would be used to calculate the January 2018 cost. The delay is acceptable to allow for timely, accurate calculations each month by the staff of the PMMB.

DEPARTMENTAL GROSS MARGIN COMPARISONS TO MILK

The graph (see Table 6) presents the gross margin by department of a variety of retail stores ranging from single store companies to multi-store companies for the 2016 reporting period representing a geographical area covering a majority of states and territories in the U.S. and Canada. Data was taken from the 2017 “Independent Grocers Financial Survey” report compiled by the National Grocers Association. Information from the study is presented with the gross margins realized by Area 3 retailers purchasing and selling at the minimum wholesale and retail prices.

TABLE 1

STORES INCLUDED IN THE AREA 3 SURVEY FOR IN-STORE HANDLING COSTS

Mr. Z's # 91

Turkey Hill # 165

Dandy Mini Mart # 27

Turkey Hill # 213

Liberty Exxon

Mt. Pocono Shur Save

Hometown IGA

Mifflinville Market

Coastal Store # 7418

TABLE 2

**PENNSYLVANIA FOOD MERCHANTS ASSOCIATION
MILK MARKETING AREA 3**

**IN-STORE HANDLING COST SURVEY, AREA 3,
STORE INFORMATION WORKSHEET**

Labor:

 Wages: _____

 Payroll Tax: _____

 Insurance: _____

 Benefits: _____

Total Labor: _____

Equipment:

 Rental: _____

 Repairs: _____

 Depreciation: _____

Total Equipment: _____

Buildings:

 Rental: _____

 Repairs: _____

 Depreciation: _____

Total Buildings: _____

Other Expenses:

 Utilities: _____

 Telephone: _____

 Insurance: _____

 Advertising: _____

 Trash Removal: _____

 Bags & Supplies: _____

 Vehicle & Travel Expense: _____

 Business Taxes (Not Income): _____

 License Fees: _____

 Professional Services: _____

 Inventory & Cash Adjustments: _____

 Miscellaneous (Laundry, Dues): _____

 Administration: _____

 Home Office: _____

Total Other Expenses: _____

Grand Total: _____

Milk Sales in Dollars: _____

Total Sales in Dollars: _____

Quart Equivalents: _____

Store Name and Number: _____

Manager: _____

Address: _____

Telephone #: _____

TABLE 3

PENNSYLVANIA FOOD MERCHANTS ASSOCIATION MILK MARKETING AREA 3

CALCULATION OF TOTAL IN-STORE MILK HANDLING EXPENSE PER QUART

Personnel Costs	\$ xx,xxx	
Building Costs	\$ xx,xxx	
Equipment Costs	\$ xx,xxx	
Other Operating Costs	<u>\$ xx,xxx</u>	
TOTAL IN-STORE HANDLING COSTS:		<u><u>\$ xxx,xxx</u></u>
November 1999 Milk Sales	\$ xxx,xxx	
DIVIDED BY:		
November 1999 Total Sales	<u>\$ x,xxx,xxx</u>	
MILK REVENUE RATIO:		<u><u>\$.xxxx</u></u>
Total In-Store Handling Costs	\$ xxx,xxx	
MULTIPLIED BY:		
Milk Revenue Ratio	<u>\$.xxxx</u>	
TOTAL IN-STORE MILK HANDLING EXPENSE:		<u><u>\$ xxx</u></u>
Total In-Store Milk Handling Expense	\$ xxx	
DIVIDED BY:		
November 1999 Quarts Sold	<u>x,xxx</u>	
TOTAL IN-STORE MILK HANDLING EXPENSE PER QUART:		<u><u>\$.xxxx</u></u>

TABLE 4

PENNSYLVANIA MILK MARKETING BOARD MILK MARKETING AREA 3

COST FOR HANDLING MILK IN RETAIL OUTLETS FOR THE MONTH OF NOVEMBER 1999

	<u>Total Revenue</u>	<u>Milk Revenue</u>	<u>Personnel Expense</u>	<u>Building Expense</u>	<u>Equipment Expense</u>	<u>Other Expense</u>	<u>Total Expenses</u>	<u>Monthly Quarts</u>
Cross-Section Totals	<u>3,374,139</u>	<u>71,615</u>	<u>324,613</u>	<u>91,232</u>	<u>11,771</u>	<u>203,061</u>	<u>630,677</u>	<u>107,542</u>
Total Revenue	3,374,139							
Total Milk Revenue	<u>71,615</u>							
Milk Revenue Ratio	<u>2.12%</u>							
Personnel	324,613							
Building	91,232							
Equipment	11,771							
Other	<u>203,061</u>							
Total Expenses	<u>630,677</u>							
Milk Expenses	13,370							
Total Quarts	<u>107,542</u>							
Milk Expense per Quart	<u>0.1243</u>							
Per PMMB Order	<u>0.0909</u>							

TABLE 5

**PENNSYLVANIA FOOD MERCHANTS ASSOCIATION
PENNSYLVANIA MILK MARKETING BOARD AREA 3**

**COST FOR HANDLING MILK IN RETAIL OUTLETS
FOR THE SEVEN MONTHS ENDED NOVEMBER 2017**

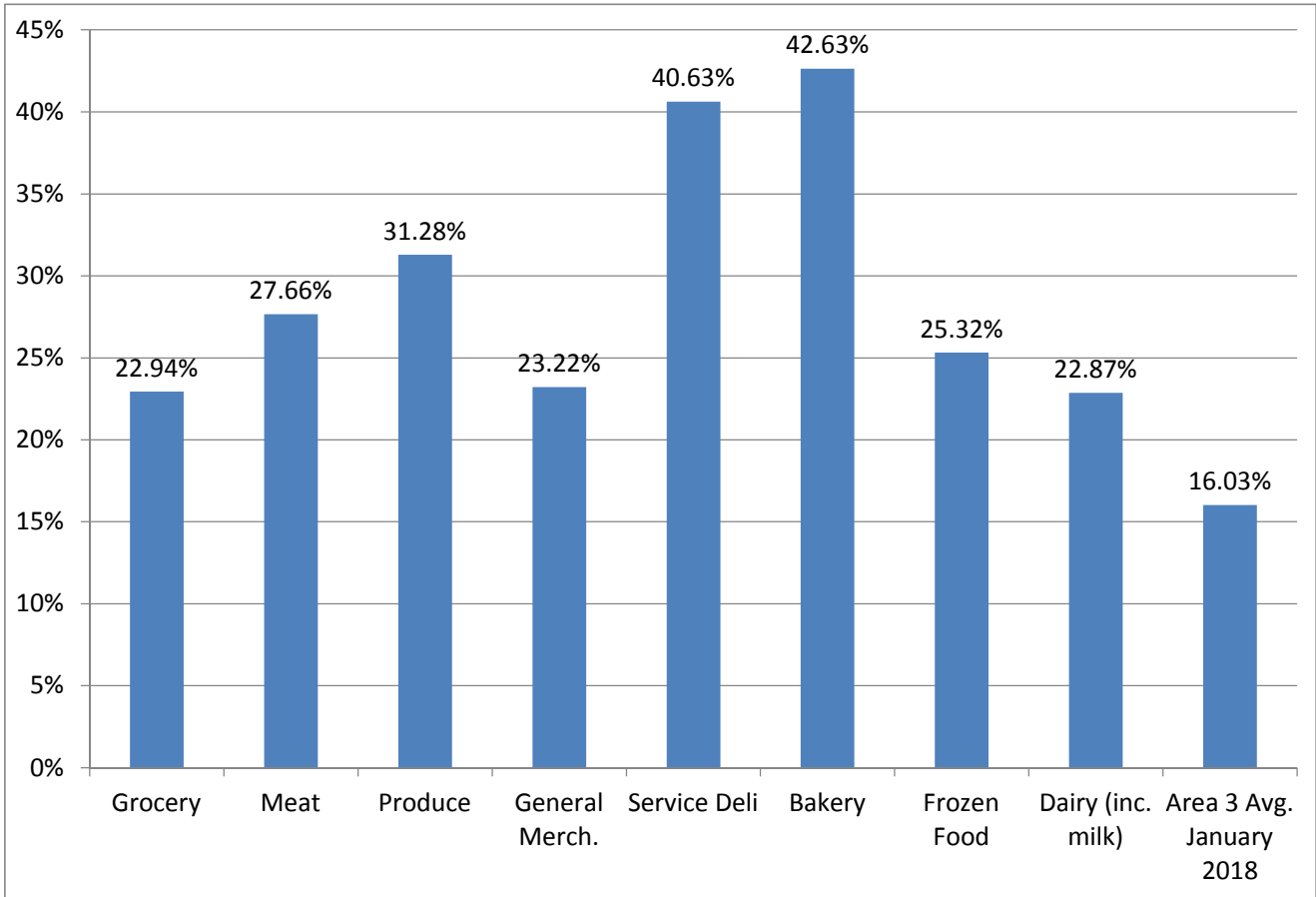
	<u>MONTH</u>	<u>CPI INDEX</u>		<u>In-Store Handling Cost Per PMMB Order A- 954</u>
Milk expense per quart at last cost replacement hearing:	April	2017 244.524		\$ 0.1320
Divided by CPI-U Index				
Multiplied by CPI-U index	May	2017 244.733	=	\$ 0.1321
	June	2017 244.955	=	\$ 0.1323
	July	2017 244.786	=	\$ 0.1322
	August	2017 245.519	=	\$ 0.1326
	September	2017 246.819	=	\$ 0.1333
	October	2017 246.663	=	\$ 0.1332
	November	2017 246.669	=	\$ 0.1332

TABLE 6

**PENNSYLVANIA MILK MARKETING BOARD
MILK MARKETING AREA 3**

**DEPARTMENTAL GROSS MARGIN COMPARISONS TO MILK
JANUARY 2018**

DEPARTMENTS OF INDEPENDENT RETAILERS



Calculation for "Area 3 Avg. January 2018"

Current Wholesale Price (per quart)	0.9748		
Deepest Discount (13%)	<u>(0.1267)</u>		
Current Cost Less Discount	0.8481	Current Retail Price	1.0100
		Gross Profit	<u>(0.8481)</u>
		Gross Profit %	0.1619
			16.03%

TABLE 7

Josh A. Pollet, CPA

Curriculum Vitae

EDUCATION

Pennsylvania State University – B.S. Degree in Accounting (2004)

EMPLOYMENT

Herbein + Company, Inc. – Reading, PA

October 2017 to present
Partner – Accounting & Auditing Department

July 2014 to September 2017
Senior Manager – Accounting & Auditing Department

December 2011 – June 2014
Manager – Accounting & Auditing Department

July 2009 – November 2011
Supervisor – Accounting & Auditing Department

December 2007 – June 2009
Senior Accountant – Accounting & Auditing Department

July 2006 – November 2007
Advanced Staff Accountant – Accounting & Auditing Department

January 2005 – June 2006
Staff Accountant – Accountant & Auditing Department

February 2004 to April 2004
Tax Department Intern

PROFESSIONAL AND CIVIC ASSOCIATIONS AND DESIGNATIONS

CPA – Commonwealth of Pennsylvania (2010)

Member – American Institute of CPAs

Member – Pennsylvania Institute of CPAs;
Member – Accounting & Auditing Committee, Reading Chapter

Firm Member – Allinial Global

National Society of Accountants for Cooperatives (NSAC)

- President – Accounting & Auditing Committee
- Vice President – Atlantic Chapter

RECENT SPEAKING ENGAGEMENTS

- Quality Chekd Dairies Annual Meeting – The Benefits of Cost Benchmarking (2015)
- National Society of Accountants for Cooperatives (NSAC) Conference – The Importance of Cost Accounting in Your Business (2016)
- International Dairy Foods Association – Dairy Accounting & Finance Workshop (2017)

SPECIFIC DAIRY RELATED EXPERIENCE

- Significant experience working in dairy consulting engagements on a broad scope of topics
- Worked with other state regulatory bodies to establish pricing/margins at the farmer, processor, and consumer levels